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20 September 1963

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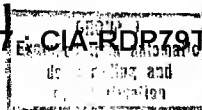
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## Current Support Brief

### USSR CONTRACTS FOR HUGE PURCHASE OF CANADIAN WHEAT



CIA/RR CB 63-76

17 September 1963

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USSR CONTRACTS  
FOR HUGE PURCHASE OF CANADIAN WHEAT

On 16 September, Canada and the USSR signed an agreement providing for the export of Canadian wheat and flour to the USSR (by 31 July 1964) in the unprecedented amount of 6.2 million tons\* (in wheat equivalent). This amount is in addition to the 300,000 tons recently purchased from Canada by the USSR. Adding to the interest of this contract was the fact that Soviet negotiators sought deliveries substantially above this amount; however, because of the limitations of its handling facilities, Canada was unable to satisfy the larger request. The Soviet purchase commitment just signed is connected with the renewal for 3 years of the Canadian-Soviet trade agreement originally signed in 1956. During these negotiations the Soviet government also undertook to purchase 500,000 additional long tons in the third year of the agreement. Payment terms involved 25 percent cash for each shipment with the balance payable in three equal installments over 18 months. Credits will be extended up to a maximum of 200 million Canadian dollars\*\* at any one time.

The Soviet decision to import wheat and flour in this volume is clearly an indication of the seriousness of the leadership's intent finally to do something about the country's depressed food situation and tends to support the belief that official Soviet data on grain production in recent years have been substantially overstated. It is likely that these imports are intended not only to relieve the tight grain situation within the USSR but to enable the USSR to meet its export commitments to the European Satellites and Cuba as well. Prospects are for a mediocre grain crop in the USSR again this year and for the grain import requirements of the European Satellites to be larger than normal.

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\* Unless otherwise indicated, all tonnages in this report are in metric tons.

\*\* Unless otherwise indicated, all dollar values are in US dollars.

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The agreement of 16 September, together with the recent purchase of more than 1 million tons of wheat from Australia and Khrushchev's ambitious plans to buy Western chemical plants, will place a heavy strain on the Soviet balance of payments. In recent months, there have been a number of indications that the Soviet authorities intend to allocate large amounts of capital in an attempt to solve the chronic agricultural problem. As a part of this program it is planned that the capacity for production of fertilizer will be greatly increased, partly through imports of equipment from abroad. In this connection the USSR has been seriously negotiating with Japan for plants capable of producing 5 million tons of fertilizer per year.

The Canadian-Soviet contract is not believed to represent preemptive buying of wheat and flour by the USSR in order to deny it to Communist China, which has a 3-year contract to purchase 3 million to 5 million tons of grain from Canada. There are still very substantial quantities of wheat available in world surplus stocks (in addition to US stocks), and the present outlook points to another near-record world production of wheat in 1963. Moreover, there is a large potential for increasing production of wheat very rapidly should world demand warrant a further increase.

1. Details of the Agreement

On 16 September, Canada and the USSR agreed to renew for 3 years their most-favored-nation trade agreement along lines generally similar to the original 1956 agreement. In this connection the government of the USSR will undertake on its part a purchase commitment for 5.3 million long tons of wheat and 575,000 long tons of flour (6.2 million metric tons in wheat equivalent) to be shipped from Canadian ports by 31 July 1964. The USSR indicated that it was prepared to purchase substantially more than the agreed amounts, but the Canadians could not agree to deliver more during this period, because of the limitations of grain-handling facilities. The value of this deal probably will approach 500 million Canadian dollars. During the third year of the agreement the USSR will undertake a further purchase of 500,000 long tons of wheat and/or flour.

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The wheat and flour provided for under this agreement is primarily for shipment to the USSR, but diversion to the European Satellites will be permitted only if it does not interfere with Canada's markets in these countries.

The contract will provide for 25 percent cash for each shipment, with the balance in three equal installments during the 18 months following the date of shipments. Government guarantees of export credits that are outstanding at any one time cannot exceed 200 million Canadian dollars.

The USSR will purchase some wheat and flour for delivery to Cuba. The Government of Canada has refused credit on this part of the agreement and is entering into separate cash transactions that may involve 150,000 tons of flour and probably 240,000 tons of wheat. The precise date and time of arrangements for shipment to Cuba are not yet determined.

The deliveries of wheat covered by the new agreement are in addition to a cash purchase of Canadian wheat by the USSR on 10 September that involved 300,000 tons of wheat valued at 22 million Canadian dollars. In addition to the foregoing purchases from Canada, the USSR has agreed to an unprecedented purchase of 1.2 million tons of wheat from Australia.

2. Soviet Grain Harvest

The "new lands" program and other measures initiated by Khrushchev during 1954-58, augmented by better-than-normal weather conditions, temporarily lifted agriculture out of the stagnant position of the Stalin era. Following the exceptionally good harvest of 1958, however, weather conditions have returned to normal or worse, and the USSR has experienced four successive disappointing crop years. Yields in the "new lands" have fallen as a result of the shortsighted policy of pushing the area to capacity without regard for proper agrotechniques.

In 1962 the leadership embarked on a stopgap program to plow up sown grasses, to reduce the fallow area, and to shift these acreages to more productive crops. Unfavorable weather reduced yields in many areas, so that the expected benefits of this program were not realized in 1962.

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In spite of an increase of almost 5 million hectares in the area sown to grain, the 1963 harvest of grain in the USSR may be even less than the mediocre 1962 harvest -- estimated at 115 million tons. Although the acreage of wheat is down only slightly, the wheat harvest probably will be significantly less than the estimated 57 million tons produced in 1962.

Unusually dry conditions in some areas in the fall of 1962 hindered seed germination, and severe winter conditions resulted in considerable winter kill. The USSR has admitted that 16 percent of the winter grain crop in the Ukraine -- an important winter wheat area -- was destroyed and that yields of winter wheat are off by about 20 percent. A severe drought in the important "new lands" areas of Kazakhstan and West Siberia -- the center of the spring wheat belt -- adversely affected the spring wheat crop. Although the grain harvest is nearing completion, the number of provinces that have reaffirmed or increased earlier pledges for deliveries to the state -- an excellent barometer of local crop prospects -- has been noticeably few and has been concentrated in the North Caucasus and mid-Volga regions.

On 12 September the USSR announced that 1963 grain procurements are expected to equal the level of 1959-60, a drop of 5 million to 10 million tons (10 to 20 percent) below the level of 1961-62. A conspicuous lack of published statements by Soviet officials on 1963 crop prospects tends to confirm the generally poor harvest picture, and Khrushchev has admitted privately that this year's harvest may be less than that of last year. During Secretary Freeman's recent visit to the USSR, his planned tour of Tselinograd in the heart of the spring wheat belt was canceled by the authorities, probably because of the poor crop situation in that area.

3. Soviet Food Situation

During the period 1955-58, there was a marked improvement in the Soviet diet. Since 1958, however, the stagnation of Soviet agriculture has precluded any significant improvement in food supplies. In fact, failure to enhance the quality of the diet was in part responsible for isolated civil unrest that was reported in the USSR during the latter part of 1962.

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Although the Soviet press recently has reported some popular concern over possible shortages of bread, food supplies in the USSR are not believed to be critical. One factor affecting the supply of bread is the well-established practice of feeding bread to livestock. Because of the huge disparity between prices for bread and prices for meat, especially on the free market, it is profitable to use bread for livestock feed. A campaign to eliminate this practice as well as to curb the waste of bread in dining halls has been underway for some time.

Perhaps a major factor in this recent purchase stems from the desire of the Soviet authorities to replenish inadequate grain reserves, which may have been substantially drawn down during the relatively poor harvest years since 1958. Withdrawals from reserves probably were heaviest during the winter of 1962-63. The Soviet purchase of this large amount of wheat tends to support the belief that the official Soviet data on production of grain for recent years are substantially overstated.

4. New Priority for Agriculture in the USSR

It has become increasingly clear in recent months that the Soviet leaders intend to take important steps to increase agricultural production. Although the scope of the program is still unclear, the large investments that reportedly are contemplated for the chemical industry are designed to produce vastly increased amounts of mineral fertilizers and other agricultural chemicals. Although no agreement has yet been concluded, the USSR appears to be negotiating seriously with the Japanese to purchase factories with a capacity of 5 million tons for production of chemical fertilizers. The results of an expanded fertilizer program, however, will not be reflected in substantially increased agricultural production for several years.

The purchases of wheat from Canada and Australia, costing perhaps 500 million to 600 million Canadian dollars plus Khrushchev's ambitious plan to purchase additional advanced Western plants for production of chemicals, plastics, and synthetic fibers will place a heavy strain on the Soviet balance of payments. It is estimated that net hard currency payments in 1962 approximated \$200 million even after allowance is

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made for deferred payments on capital goods imports from the industrial West. It is estimated that Moscow now owes Western suppliers about \$500 million on medium-term credits falling due within the next 5 years. In recent years the USSR has sold an average of \$220 million worth of gold annually to procure foreign exchange to finance purchases from the West, and Moscow recently has concluded gold sales of about \$35 million, perhaps in preparation for large grain purchases. (Soviet gold sales normally are made in the period October-April.) The value of gold produced in the USSR in 1963 is estimated to be \$175 million, and its reserve, depleted by annual sales, is believed to total about \$2 billion.

5. Soviet Wheat Trade

Canada exported wheat to the USSR during 1956-59 and again in 1961, but these exports did not exceed 0.5 million tons in any year. Soviet imports from Canada have generally been shipped from Canadian Pacific ports to the food-deficit areas in the Soviet Far East.

The USSR traditionally has been a net exporter of wheat. Since 1955, net exports have ranged from a low of 1 million tons in 1956 to a high of almost 6 million tons in 1959 (see Table 1). The high level of net Soviet exports of wheat in 1957 and 1959 reflects the excellent wheat harvests in 1956 and 1958. The large net exports in 1960 and 1962 appear to reflect the need for hard currency rather than ample Soviet wheat harvests.

Eastern Europe has been the principal importer of Soviet wheat, but there has been a trend toward increased exports to non-Bloc countries. The USSR exported 2.8 million tons of wheat to the European Satellites in 1962. Shortfalls in the current harvests of breadgrains in East Germany, Czechoslovakia, and Hungary may cause an increase in the requirements for imports of wheat by the European Satellites by as much as 1 million tons for 1963/64. Additional pressure will be put on supplies of bread by the shortages of livestock products and potatoes (an important staple in the northern Satellites). Increased imports of wheat may be needed in the northern Satellites to replace the somewhat larger than normal quantities of rye being used for livestock feed because of the shortage of potatoes, barley, and roughage.

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With the exception of Poland, the European Satellites have not provided a stable or lucrative market for Canadian wheat. During the last 4 years (1959-62), Poland alone has consistently bought wheat from Canada. Polish purchases increased from about 155,000 tons in 1959 to 405,000 tons in 1962. Czechoslovakia has purchased 120,000 tons of wheat this year. The Czechoslovak purchase plus a Polish purchase of 200,000 tons and a possible additional purchase of 300,000 tons in 1963 may make 1963 a record year for Canadian sales of wheat to the European Satellites.

6. Canadian Sales of Wheat to Communist China

From the beginning of 1961 to August 1963, Canada sold about 6 million tons of grain to Communist China (see Table 2), including 5 million tons of wheat and 1 million tons of barley.

On 2 August 1963 a new contract for 300 million Canadian dollars worth of wheat was concluded between Canada and Communist China. Under the terms of the contract, Canada will export from 3 million to 5 million tons of wheat to China over a 3-year period, beginning 1 August 1963. These are the same amounts specified in an agreement signed in 1961. The new agreement, however, covers 3 years compared with 2 1/2 years for the previous agreement and does not provide for any sales of barley as did the previous one. The credit terms have been lengthened and provide for 25 percent cash and the balance in 18 months compared with 9 months in the earlier agreement.

As before, the long-term agreement is a statement of intent in which Canada binds itself to offer the specified amounts of grain and Communist China binds itself to buy, provided that China finds the terms satisfactory.

7. Chinese Needs for Imports of Grain

In 1961, Communist China signed the first of many contracts for the import of food grains to help alleviate serious food shortages that began with poor crops in 1959 and 1960. Since then the continuation of food

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shortages has required further imports of grain. Between 1961 and the end of August 1963, China purchased, largely from Canada and Australia, more than 17 million tons of grain, approximately 16 million tons of which were for domestic consumption.

Prospects are that China will continue to be dependent on outside sources of grain to augment its domestic production. China's estimated grain deficit at the end of 1963 excluding imports will be approximately 20 million tons on the basis of per capita production in 1957. This deficit will continue to increase unless China can produce sufficient grain to provide for an annual increase of 10 million to 15 million in its population.

#### 8. World Wheat Situation

The present outlook points to another near-record world production of wheat in 1963. On the basis of preliminary information, world production may be moderately below the 1962 total, which was the second largest on record. Present prospects are that smaller harvests in Europe will be largely offset by better crops in other areas, especially in North America.

The August estimate of the US wheat crop was about 31 million tons -- 5 percent more than 1962 production but 6 percent below average. The prospective yield of about 26 bushels per acre would be the third largest on record. A near record of almost 19 million tons is expected in Canada.

Preliminary forecasts indicate that production in Western Europe will be about 8 million tons less than last year's record crop, with the bulk of the decrease occurring in France, Italy, and the UK.

In countries of the Southern Hemisphere the wheat harvest does not begin until November-December, but in Australia optimistic reports speak of a harvest approximating the record 1962 crop. The Argentine acreage is reported to be somewhat larger than last year, with crop conditions being generally satisfactory.

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The poor crop in France in 1963 will prevent significant exports from that country this year. On the other hand, according to preliminary estimates, the US will have about 47 million tons of wheat for export and carryover during the current crop year -- about 2.6 million tons less than last year (see Table 3). The Canadians also have large stocks for export and carryover. Good crops in Australia and Argentina will provide significant additional supplies available for export.

Thus, although the impact of the Soviet demand for the equivalent of more than 6 million tons of wheat will be significant, there are still very substantial quantities of wheat available in world surplus stocks in addition to those of the US. Furthermore, there is a large potential for increasing production of wheat very rapidly should world demand warrant such increases.

Canadian wheat exports during the past 3 years have averaged 9 million to 10 million tons annually. With a large carryover and a good crop this year, the Canadians should have no shortage of wheat to meet their export obligations both to the Bloc and to traditional Free World importers.

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Table 1

USSR: Net Exports of Wheat a/  
1955-62

	Million Metric Tons							
	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>
European Satellites	1.62	0.50	4.53	2.80	4.33	4.16	2.59	2.78
Other Communist Countries <u>b/</u>	0	0.01	0.04	0	-0.01	0.02	0.53	0.38
Total <u>b/</u>	<u>1.62</u>	<u>0.51</u>	<u>4.57</u>	<u>2.80</u>	<u>4.32</u>	<u>4.18</u>	<u>3.11</u>	<u>3.16</u>
Free World	<u>0.39</u>	<u>0.50</u>	<u>0.76</u>	<u>0.76</u>	<u>1.49</u>	<u>1.34</u>	<u>1.04</u>	<u>1.56</u>
Grand total	<u>2.01</u>	<u>1.01</u>	<u>5.33</u>	<u>3.56</u>	<u>5.81</u>	<u>5.53</u>	<u>4.14</u>	<u>4.72</u>

a. Because of rounding, components may not add to the totals shown.

b. Including Cuba for 1960-62.

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Table 2

Communist China: Imports of Grain  
1957-63

					Million Metric Tons
<u>Year</u>	<u>Gross Imports</u>				<u>Total Retained Imports</u>
	<u>Canada</u>	<u>Australia</u>	<u>Other</u>	<u>Total</u>	
1957	0	0	0.14	0.14	N.A.
1958	0.116	0.01	0.04	0.17	N.A.
1959	0	0	0.005	0.005	N.A.
1960	0	0.01	0.029	0.039	0
1961	2.4	2.6	1.3	6.3	5.5
1962	2.1	1.2	2.0	5.3	5.0
1963 <u>a/</u>	1.4	3.1	1.0	5.5	5.4

a. On the basis of contracts signed through 31 August 1963.

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Table 3

Estimated Supplies of Wheat in Five Major Exporting Countries  
in Crop Years of Exporting Countries

	Million Metric Tons												
	US			Canada			France			Australia		Argentina	
	July-June			August-July			August-July			December-November		December-November	
	<u>1961/62</u>	<u>1962/63</u>	<u>1963/64</u>	<u>1961/62</u>	<u>1962/63</u>	<u>1963/64</u>	<u>1961/62</u>	<u>1962/63</u>	<u>1963/64</u>	<u>1961/62</u>	<u>1962/63</u>	<u>1961/62</u>	<u>1962/63</u>
Opening stocks	38.4	36.0	32.4	16.6	10.6	13.4	1.9	1.4	2.5	0.7	0.5	1.0	0.2
Production	33.6	29.7	31.3	7.7	15.2	18.9	9.5	14.0	9.2	6.7	8.3	5.5	5.0
Total supply	<u>72.0</u>	<u>65.7</u>	<u>63.7</u>	<u>24.3</u>	<u>25.8</u>	<u>32.3</u>	<u>11.4</u>	<u>15.4</u>	<u>11.7</u>	<u>7.4</u>	<u>8.8</u>	<u>6.5</u>	<u>5.2</u>
For domestic use	16.6	16.1	16.7	3.9	4.1	4.3	8.6	10.5	10.5	2.1	2.0	3.5	3.4
Available for export and carryover	55.4	49.6	47.0	20.4	21.7	28.0	2.8	4.9	1.2	5.3	6.8	3.0	1.8

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